Saskatchewan
Agriculture
and Food

Farm Support Review Committee

Report on Safety Net Consultations

FARM SUPPORT
review committee

Report on Safety Net Consultations

December 31, 2001

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Honourable Clay Serby
Deputy Premier
Minister of Agriculture and Food
Minister Responsible for
Rural Revitalization
Room 334, Legislative Building
REGINA SK S4S 0B3

Dear Mr. Serby:

The Farm Support Review Committee is pleased to present you with its Report on Safety Net Consultations.

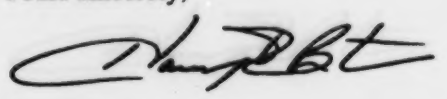
This report is a result of our public consultations with Saskatchewan producers and farm organizations during the summer and fall of 2001. During that consultative process, the Committee sought ideas on how the current system of government safety net and disaster programs could be improved for Saskatchewan farmers. We also asked participants for their views on the National Safety Net Review.

Much of the input received during these consultations was on the Crop Insurance program, the Net Income Stabilization Account (NISA) and the Canadian Farm Income Program (CFIP). The Committee also heard a number of alternative program designs and suggestions for different forms of agricultural support. These suggestions for alternative programs led the Committee to examine eight potential programs and to consider general principles, which should be the basis for safety net programming.

The Farm Support Review Committee makes 26 recommendations in this report. Of these, eight are in respect to Crop Insurance, eight deal with NISA and five address CFIP. The report also includes several general recommendations on safety net funding and farm support that are not specific to current programs. Furthermore, the Committee recommends examination of two alternative safety net programs: an enhanced gross margin insurance program; and a trade equalization payment program that is designed to account for sustained declines or impacts on prices and/or production resulting from international trade distorting subsidies.

On behalf of the Farm Support Review Committee, I wish to thank you for the opportunity to provide advice on this important issue.

Yours sincerely,



Harry Bastness
Chairman

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EXECUTIVE SUMMARY

Federal, provincial and territorial agriculture ministers agreed to a complete review of safety net and disaster programs available across Canada in March 2001. Shortly after that joint decision, Deputy Premier and Saskatchewan Agriculture and Food Minister Clay Serby asked the Farm Support Review Committee (FSRC) to coordinate public consultations in the province, to ensure the views of Saskatchewan producers and farm organizations are communicated to the federal government.

During the summer and fall of 2001, the FSRC received submissions from twelve organizations and met with ten for more thorough discussion. Additional input was received from twenty-four individuals, the Department of Agricultural Economics at the University of Saskatchewan, two rural municipalities and the Northwest and Northeast Regional Council of ADD Boards.

The Crop Insurance program received the most commentary from farm organizations and individuals during the consultation process. With a few exceptions, those who commented on the program were supportive of it, but sought changes that they perceive would improve the program's effectiveness for producers.

The Net Income Stabilization Account (NISA) is a popular safety net program with producers. Many of the suggestions made for program improvement would expand the degree to which producers could participate.

Producer and farm organization views in respect to the Canadian Farm Income Program (CFIP) were more critical. A number of concerns were raised with the program and a few submissions suggested CFIP be discontinued and its funding be reallocated to other safety net programs and/or infrastructure and value-added initiatives.

The Committee also received a number of alternative program designs and suggestions for different forms of agricultural support. These suggestions for alternative programs led the Committee to examine eight potential programs on which information is available. The Committee decided that it would be guided in the examination of these programs and of any program concepts designed internally, by eleven agreed upon principles for safety net programming.

The FSRC identified twenty-six recommendations for inclusion in this report. Of these, eight are in respect to Crop Insurance, eight deal with NISA and five address CFIP. The report also includes several general recommendations on safety net funding and farm support that are not specific to current programs. The Committee is recommending examination of two alternative safety net programs: an enhanced gross margin insurance program; and a trade equalization payment program that is designed to account for sustained declines or impacts on prices and/or production resulting from international trade distorting subsidies.

1. INTRODUCTION

1.1 Mandate of the Committee/Ministerial Direction

The Farm Support Review Committee (FSRC) is established under the Agricultural Safety Net Act and came into existence on December 8, 1992. Order in Council 642/2000, dated October 24, 2000, establishes the current makeup of the Committee. It now consists of representatives of seven major farm organizations in the province along with ten members at large to provide regional and gender representation.

The mandate of the Saskatchewan's Farm Support Review Committee is...

> *"... to provide guidelines on farm support regarding such things as safety net design and adjustment programming including the level of support, distribution of support, the effect of programs on resource use and allocation, environmental implications, trade issues, payment and premium delivery mechanisms, and linkages to other programs."*

Last March, federal, provincial and territorial agriculture ministers agreed to a complete review of safety net and disaster programs available across Canada. Following that meeting, Deputy Premier and Saskatchewan Agriculture and Food Minister Clay Serby asked the FSRC to coordinate public consultations, to ensure the views of Saskatchewan producers and farm organizations are communicated to the federal government. The authority to do so is contained in the Agricultural Safety Net Act, which empowers the Minister to ...

> *"...from time to time, direct the Farm Support Review Committee to consider and prepare a report with recommendations with respect to agricultural safety net programs, the adequacy of agricultural safety net programs, the need for other agricultural support programs, the cost sharing of agricultural safety net and agricultural support programs or any other issue or policy that the minister considers appropriate. "*

The following document represents the report to the Minister of the consultations held by the FSRC.

1.2 Members of the Committee

The FSRC consists of the following organizational representatives and members-at-large.

Members Representing Farm Organizations:

Jim Robbins	National Farmers Union
Jerry Pfeil	Sask Pork
Neal Hardy	Saskatchewan Association of Rural Municipalities
Fred Meister	Saskatchewan Canola Growers Association
Marsha Cannon	Saskatchewan Cattle Feeders Association
Thad Trefiak	Saskatchewan Wheat Pool
Rhett Allison	Western Canadian Wheat Growers Association

Members-at-large:

Harry Bastness	Hagen (Chairman)
Rene de Moissac	Biggar
Myles Fuchs	Fleming
Audrey Horkoff	Kamsack
Noreen Johns	Allan
Wayne Katerynych	North Battleford
Sherry Leach	Weyburn
Arlee McGrath	Leroy
Marvin Shauf	Stoughton
Doreen Wagner	Strasbourg

1.3 Schedule of Activities and Call for Presentations

In early May, the FSRC sent correspondence to 54 organizations and associations that express interest in the well-being of the agricultural sector in the province. This correspondence invited these groups to present their ideas on how the current system of government safety net and disaster programs could be improved for Saskatchewan farmers. The Committee also asked for their views on the National Safety Net Review and invited representatives of these organizations to meet with the FSRC to present and discuss their submissions.

These organizations were provided with a copy of the notice of consultations for use in member newsletters. This notice was also included in the Farm and Food Report, which is circulated to weekly newspapers. The notice invited individual producers to send written submissions to the FSRC or to respond via the Saskatchewan Agriculture and Food website. The deadline for submissions was September 1, 2001.

1.4 Submissions and Presentations Received

The FSRC met with six organizations during July 31-August 1, 2001, and heard from an additional four organizations and a representative of the Department of Agricultural Economics, University of Saskatchewan on October 25-26, 2001. Two organizations provided written submissions but did not appear before the Committee. Additional input was received from 24 individuals, two rural municipalities and the Regional Council of ADD Boards. (A list of organizations and individuals that provided input to the Committee may be found in Appendix C.)

2. ISSUES RAISED BY PRODUCERS AND FARM ORGANIZATIONS

2.1 Crop Insurance

Crop Insurance received the most commentary by farm organizations and individuals during the consultation process. With a few exceptions, those who commented on the program were supportive of it, but sought changes that they perceive would improve the program's effectiveness for producers.

Many farm organizations and individuals proposed increases to the percentage of total crop production coverage and spot loss coverage that is available under the Crop Insurance Program. This increase is seen to be necessary to provide coverage levels that more closely approximate the costs of producing a crop. Other coverage improvements that were recommended included a broadening of the availability of spot loss insurance beyond hail to other weather risks, provision of insurance on a field or quarter section basis and refinement in coverage to better reflect an individual's actual grade and protein experience.

Some presenters sought an expansion in the rainfall based pasture insurance, and enhancements to hay and green feed insurance. Other proposals sought an expansion in coverage to new special crops. One organization proposed that wildlife damage should be covered at 100 percent with no deductible applied.

Several organizations and individuals expressed concern that the calculation used to determine yield coverage levels does not adequately reflect the application of new technology and/or improved management techniques of individual farmers. A related concern was the inability to utilize one's production history and experience with certain crops in the insurance of new crops. An additional concern regarding yield calculations was the impact of drought or severe weather on an individual's yield average. Several approaches were suggested to address these issues with the most common being changes to the averaging period, some transferability of current production experience to new crops, and the exclusion of severe reductions in yields from the average calculation.

Some presentations focused on premiums rather than yield coverage concerns. These suggested that any lower risks associated with a widely separated land base or with the utilization of best management practices should be reflected in premium discounts.

There were comments on the timing and transparency of the establishment of crop prices, which with individual average yields are used to determine the actual value of the insurance coverage provided. Some producers questioned how these prices are determined and whether the process could be improved so that the prices utilized more accurately reflect market values at harvest. Other suggestions included dispensing with market-based calculations to arrive at prices for insurance purposes and utilizing some historic average of prices instead.

A few proposals sought the expansion of Crop Insurance from production insurance to crop revenue insurance. Other suggestions would have the value of crop insurance increased to the level necessary to cover costs. These suggestions ranged from covering all cash costs to covering all costs of production.

Several proposals resulted from producers' experiences with drought and its impact on feed supplies. One suggestion would establish the expeditious write-off of drought-damaged crops to zero, so their feed value could be preserved. Another would have the yield value of crops salvaged for feed reassessed at harvest time. Other suggestions sought an end to the application of a salvage value deduction (once this value dropped below some set value) from indemnities to be paid. Similarly, the harvesting of crops yielding less than a certain number of bushels per acre should not be required.

One submission highlighted environmental and soil conservation concerns and sought the removal of any incentives in the program to fallow or to annually crop marginal/fragile lands. Furthermore, it was suggested that Crop Insurance should assist in lowering short-term risks associated with the adoption of best management practices that enhance soil conservation.

2.2 Net Income Stabilization Account (NISA)

From the consultations with farm organizations and producers, it became evident that NISA is a very popular safety net program with producers. Several proposals were presented in the context of making a good program better. The effect of many of the suggestions made would be to expand the degree to which producers could participate.

Several submissions sought an increase in the amount that producers could contribute and have matched. Some proposals would base producer contributions on gross sales values, or change the point of sale determination to enable the inclusion of freight, handling and other charges in grain receipt calculations. Other suggestions were to increase the matching contribution percentage on eligible net sales, and to increase the maximum eligible net sales level and the total contribution ceiling. Some proposals for a higher matching contribution rate would limit this provision to new entrants so that they may establish a meaningful account level in a shorter timeframe. One suggestion would enable any unused contribution room to be carried forward.

An observation made with respect to NISA is that producers' eligible net sales and their ability to make matching contributions declines in years when commodity prices and/or yields are low. It was suggested that producers be allowed to make matchable NISA contributions that reflect their expected, rather than actual, gross receipts in such times.

A concern expressed with NISA is its linkage to the Canadian Farm Income Program (CFIP). Several submissions noted this linkage leads to a reduction in CFIP payments and reduces the amount received by producers under that program. This linkage is seen to be inappropriate and its removal is desired. Other suggestions were to discontinue CFIP and re-allocate its funding to enhance the NISA.

Another issue that was raised is the length of time a producer who withdraws from the program must wait before re-entry is allowed. For these individuals, earlier re-entry to the program was suggested.

Another concern expressed by participants in some intensive livestock operations is that the minimum ownership requirements under NISA have meant the exclusion of many from participation in the program. It was proposed that minority ownership interests of below ten percent in agricultural operations be allowed to participate in the program.

Some organizations emphasized that the bonus interest provision and its tax treatment should be left unchanged. Other presenters took the position that the funds made available by any reduction in, or elimination of the bonus interest provision should be used to increase the percentage rate contributions on eligible net sales.

Some presentations supported greater access to the funds in NISA accounts. One proposal sought the establishment of a more realistic benchmark for the triggering of withdrawals under the stabilization trigger. Another suggestion would allow withdrawals at the discretion of the farmer. A third would require the automatic withdrawal of NISA funds once accumulated interest and producer contributions rise above a prescribed level. Another proposal would allow accounts to go into deficit.

Several organizations expressed the position that when NISA withdrawals occur the portion that is taxable should be considered farm income rather than investment income. Other groups suggested the NISA funds should be available to serve as collateral.

2.3 Canadian Farm Income Program

Producer and farm organization views in respect to the Canadian Farm Income Program were more critical compared to the views expressed regarding Crop Insurance and NISA. A number of concerns were raised with the program and a few submissions suggested CFIP be discontinued and its funding be reallocated to other safety net programs and/or infrastructure and value added initiatives.

Several submissions raised the complexity of the program, the financial information that is required and the costs incurred by many producers in applying to the program. These submissions recommended that the administrative processes be streamlined and costs be reduced, so the amounts available for producer payments could be increased. Furthermore, the time required to establish payment eligibility and to issue payments was felt to be excessive and should be shortened. Some concern was also expressed in regard to the effectiveness of the interim payment mechanism in responding to known dramatic declines in income, such as have occurred in Saskatchewan's drought affected areas.

An additional concern expressed with the size of producer payments is the linkage to NISA participation, which leads to a reduction in the CFIP payments that may be received. This linkage was seen to be unfair and should be removed.

Some organizations and individuals expressed concern with the low coverage, and the requirement that producers absorb the first 30 percent decline in gross margin. Some individuals proposed that the coverage level be increased to 80 percent.

Other organizations identified the concern that the program is ineffective in assisting operators whose margins have declined significantly over time, due to successive years of poor crops or prices. To assist these producers it was suggested that CFIP administrators allow the calculation of a deemed reference margin that assumed more normal production or undistorted prices. Another proposal to address this concern would base payments and triggers on more realistic benchmarks, including variable term reference periods. Additional suggestions were to have the gross margin reference calculation include a cost of production component, be indexed to inflation or include some adjustment to reflect the impact of international subsidies.

As with NISA, participants in some intensive livestock operations raised the issue of program eligibility restrictions due to minimum ownership requirements. It was proposed that such operations be allowed to more fully participate in CFIP, and that the minority ownership rules be changed to enable this to occur.

One group suggested that the program be changed to provide sector by sector, rather than whole farm, support. Another organization proposed that the program be fully funded so that prorating of producer payments is avoided.

2.4 Suggestions for Other Actions and Programs

During the consultation process, the Committee received a number of alternative program designs and suggestions for different forms of agricultural support. Two program proposals were quite comprehensive. These were a Revenue Stabilization Program, which would offset shortfalls in producers' gross revenues or margins; and an Income Assurance Program, which would enable producers to purchase insurance on a per acre basis at a level that would cover their costs of production.

Other proposals were less detailed. One organization suggested development of an income assurance program that enabled the recovery of costs and which reflects inflation. They sought a program that was bankable and which producers could draw on for an advance (because they had an assured income) for production expenses. Other suggestions for this program included fixed premiums for basic coverage and the maintenance of coverage levels in claim years, with adjustments to premiums. Another organization proposed the combination of all provincial and federal support money into one program, which, with producer premiums, would be run as an income assurance program.

Some individuals expressed the need for a GRIP-like insurance program. Similarly, one organization proposed the development of an all-inclusive commodity pricing insurance program, which would include producer contributions, affordable government support, and be actuarially sound and sustainable. Another group indicated the desirability of a well designed, market based, actuarially sound whole farm revenue insurance program.

The Committee appreciated the suggestions it received on alternative safety net program designs during the consultation process and concluded that additional study of alternative programs would be required if any recommendations were to be made.

3. ANALYSIS OF OPTIONS FOR SAFETY NET IMPROVEMENT

The Committee agreed that in advance of any alternative program discussion, it should decide on a set of principles for safety net programming. The Committee would then evaluate the various program designs against these principles.

A set of program principles was drafted by an editorial subcommittee, which also reviewed eight different program designs. At its meeting of November 22nd and 23rd, the FSRC reviewed these principles and agreed these should only be adopted if they received the support of at least two-thirds of the Committee members present. In addition, the Committee concluded that a preamble or purpose statement on the role and importance of safety net programming should be prepared. As a result of these discussions, the Committee established the following purpose statement and 11 principles for safety net programming. The eight different program designs considered at the subcommittee level were then examined by the Committee and measured against these principles.

3.1 Safety Net Purpose Statement

Adequately funded and designed safety nets are an important component of national agriculture policy. They are an essential investment if the global competitiveness and profitability of Canada's primary agriculture and agri-food sectors is to continue to grow. These sectors make a fundamental and necessary contribution to the Canadian economy, and the well being of Canadians, by providing one in seven jobs and by contributing over eight percent to the national gross domestic product. Furthermore, a dynamic and vibrant agricultural industry is an essential ingredient for a healthy economy and society. Although the attainment of that objective can only result from comprehensive and effective rural development and agricultural policies, effective safety net programs may contribute significantly to its realization.

Safety Net Principles

1. Safety nets should be designed to assist the agricultural sector to compete globally on a profitable basis.

2. Safety nets should attempt to be neutral with regard to production, farm size and structure.*

3. Governments and producers must share in risk mitigation.

4. Safety net programs should provide adequate levels of risk protection among geographic regions.

5. Safety net programs should work in conjunction with each other, avoiding duplication and overlap.

6. Safety net programs should not encourage poor environmental stewardship.

7. Safety net programs should be delivered in the most efficient manner possible while minimizing program abuse.

8. Safety net programs should maximize opportunities under World Trade Organization commitments and minimize countervail risk.

9. Safety net programs should work to provide stability through cyclical price and/or production variations.

10. Government funded safety net programs need to respond to extreme income reductions due to trade distorting agricultural policy, market collapse or weather disasters.

11. Government funded safety net programs need to respond to sustained income

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* The representative of the National Farmers' Union on the Farm Support Review Committee indicated his organization's opposition to a lack of controls on farm size and voted against the adoption of this principle.

reductions due to trade distorting agricultural policy, market collapse or weather disasters.

Having established these principles the Committee proceeded to examine eight alternative safety net program designs. Three of these programs had been designed by the Committee in the early years of its mandate, two had been proposed to the Committee during its consultations, one was proposed by Saskatchewan Agriculture and Food, and two represent existing programs that are available in other provinces in Canada.

3.2 Alternative Program Designs

3.2.1 The Pooled Stabilization Program (PSP)

The PSP would provide individual protection from reduced income due to production losses and/or low prices. Payments would be made from a stabilization pool that operates at the industry level and which pools the risk over all participants and all commodities.

In many respects the program is similar in design to CFIP, however participants would pay premiums, which with government contributions, would be held in the stabilization pool. An individual would trigger a payment from the stabilization pool when his current year gross margin fell below a percentage of his five-year average gross margin. In addition, the program would have a minimum income trigger for situations in which total net income falls below a pre-determined threshold.

An additional difference from CFIP is that participants would choose a level of support that could range between 50 percent and 100 percent of their five-year average gross margin. This average could be based on a three-year or seven-year calculation. Furthermore, the stabilization pool would be allowed to go into deficit. Producers would contribute to the stabilization pool based on a percentage of sales, and these contributions would reflect the level of coverage chosen by the participant and the risk involved for each commodity marketed. The cost sharing is assumed to be 25 percent participant, 65 percent federal government, and ten percent provincial government, resulting in a ratio of one dollar from producers for every three dollars from government.

The Committee noted that this program is whole farm based. However trade implications could arise because the gross margins coverage could exceed 70 percent and the reference margins would be calculated based on a period greater than three years or a five-year Olympic average. The FSRC's assessment was that these trade implications would be low. One weakness of the program would be its inability to respond to a sustained decline in income, which eliminated or substantially reduced participants' gross margins.

3.2.2 Support Income Stabilization Account (SISA)

SISA was conceptualized as a two-pronged program, with one component offering sector specific income support based on a calculated cost of production, and the other providing income stabilization similar to NISA.

Sector support would be funded by government and would flow to individual producer accounts depending on the economic condition of specific sectors such as grains, cattle, hogs, etc. The program would support each sector equivalent to the shortfall between aggregate cost of production (including depreciation) and revenue. Commodities that are substitutable in terms of production would be grouped together. Producers in each sector would have their accounts share in payments, based on their share of net eligible sales relative to the total sector net eligible sales.

The support available to all sectors would be funded to a set level by government and this "envelope" could fluctuate between predetermined levels of maximum deficit and surplus. If funds were insufficient to meet sector needs in any year the available funds would be prorated.

In addition to funding received from the sectoral component, individual accounts could be built up by matching contributions based on a percentage of net sales.

Once funds are in individual accounts, either through participant deposits or government sector payments, they would become the property of the producer. Withdrawals could be made from these individual accounts when current year net income falls below five-year average net income. Net income would be defined as the margin between revenue and direct expenses excluding labour, interest, CCA, etc. There would also be a minimum income trigger similar to that provided under NISA.

The Committee felt that the proposal could be considered commodity specific and could run counter to WTO rules. As well, producers would still need crop insurance to cover production losses. Furthermore, it would be expected that the current NISA program would be discontinued. Finally, the ability of the program to offset both extreme and sustained declines in income would depend on the sectoral funding provided by government.

3.2.3 Farm Income Adjustment Plan (FIAP)

FIAP was designed as a commodity sector-based support program that would pay a deficiency payment based on the commodity sector's market revenue and average cost of production. The program's objective would be to provide a simple and direct method of support to the agricultural industry.

Payout to sector participants would be triggered when current year gross sector revenue falls below a historical average (five or ten years) aggregate sector cost of production. The distribution of payments to participants would be based on their historical market revenue for commodities in a sector compared to the historic market revenue of all participants. This would be further adjusted by a participants' land debt-to-equity ratio. The higher the debt-equity ratio the greater the payment an individual would receive.

Program designers proposed that the program would be totally government funded although producer premiums would be a possibility.

The Committee noted that the program could be considered commodity specific and have trade implications. As well, it would not treat participants equally as it would be targeted at low equity producers. This could result in management decisions being taken to maximize program payments. In addition, producers would still require crop insurance to cover individual production risks. Other than the payment variation based on debt-equity, the program approach is similar to SISA. Its ability to offset both extreme and sustained declines in income would be dependent on the sectoral funding provided by government.

3.2.4 Revenue Stabilization Program (RSP)

RSP was described as a whole farm program that would support producers' prices. These support prices would be determined by application of an Olympic average for some historic period. Payments would be made if the current year gross revenue, in aggregate for all commodities sold, fell below the computed gross revenue. The computed gross revenue would be an aggregate of the Olympic average price multiplied by the current year units sold for each commodity marketed. As a result, there would be no consideration to variations in a producer's unit sales.

Participants would be required to withdraw 30 percent (if available) of any shortfall from an individual Revenue Stabilization Account. They could contribute up to 20 percent of the difference between their current year gross margin and their average gross margin in years where the actual margin exceeds the historic to their stabilization account. Governments would pay the shortfall of the gross margin decline deemed appropriate, which the program designer suggests should be 70 percent.

The Committee observed that the program would probably be considered commodity specific, despite its whole farm description. As well, the Committee felt that the exclusion of costs or income from the program design significantly weakened it as a stabilization or support tool. As a result the Committee did not consider this program further.

3.2.5 Income Assurance Program (IAP)

The concept underlying IAP is to provide a dollar value per acre insurance coverage program. It would enable producers to insure and recover their cost of production. Producers would select the coverage they want and premiums would be adjusted accordingly. The program designer suggests that coverage of between $100 and $160 per acre would be selected for most crops, with up to $200 per acre available for special crops. These amounts would increase as input costs increase.

In reviewing this program the Committee expressed discomfort with its revenue approach. There was concern over the policing that would be required because of the potential for program abuse. As well, the Committee felt the program would significantly influence management decisions. Furthermore, the program was specific to crops and offers no provisions for the livestock sector.

3.2.6 Assurance-Stabilisation Des Revenus Agricoles (ASRA)

ASRA is a commodity based support program that is offered in Quebec. It is designed to provide market deficiency payments based on production costs and 90 percent of the skilled worker salary in the province.

Each commodity is treated separately, with costs of production based on specialized farm models. Payments are triggered when market revenue (based on the average price prevailing throughout the crop year or sales period) is less that the cost of production combined with the salary component.

Producers pay roughly one-third of the program premium costs and the provincial government pays the remainder. Producer premiums are deducted from program payments or become due at the end of the year. The producer's premium may be higher or lower depending upon whether the commodity account in question is in a deficit or surplus position. A one-year commodity premium surplus is built up over ten years while a program commodity account deficit is recaptured over five years.

The Committee noted that the sector or commodity specific nature of the program would likely trigger trade action. The program does not adjust for individual productivity and likely would not be neutral to management decision making. Neither does it provide protection from production disasters. Crop insurance would still be required.

3.2.7 Crop Sector Revenue Plan (CSRP)

The purpose of CSRP would be to provide the crop sector with additional support in recognition of the impact of high international subsidies being provided by the United States and the European Union to their grain and oilseed producers.

The Crops Revenue Sector Program would be an aggregate sector revenue plan that incorporates the cost of production, including returns to land, labour and management. It would provide payments to producers when the aggregate crop sector revenue (including farm fed grains) falls below the target sector revenue.

The target sector revenue would be based on a provincial level cost of production formula that includes cash costs for the crop sector, depreciation on equipment used in the production of crops, labour used to produce crops at some industry average level, and a return on investment in crop land.

A payment would be triggered when the crop sector revenues at the provincial level are below the cost of production. Because the payment is driven off of revenue, the program incorporates production and price offsets (i.e. above average production or price increases reduce payments). Producers would share in this payment according to their portion of the provincial cultivated area, with adjustments for individual land productivity and management ability.

The Committee concluded that producers would still require some form of crop insurance to cover production risks. As well, there could be trade implications because of its sectoral nature. An additional issue is the exclusion of sectors other than grains and oilseeds.

3.2.8 Market Revenue Plan (MRP)

The MRP is a price risk management program that is offered in Ontario, which provides protection from low commodity prices.

Payments are made when the average annual price for the crop year falls below the support price. Producers receive two-thirds of the difference between the support price and the average annual price for eligible commodities, which reflects the absence of producer premium contributions.

The support price is 85 percent of the 15-year Indexed Moving Average Price (IMAP). The producer is eligible to receive the MRP payment on 85 percent of their long-term average yields on insured acres.

The Committee observed that producers would still require some form of crop insurance to cover production risks. As well the commodity and price specific nature of the support would likely risk trade action. The selective nature of coverage in the program (to certain crops) suggests it would not be production neutral.

3.3 Program Designs that Received Further Examination

After reviewing these eight program designs, the Committee agreed that additional examination should be given by the editorial subcommittee to those programs that most closely matched the principles that had been established. In addition, the subcommittee was instructed to conceptualize alternative programs designs if this was deemed necessary to achieve a set of programs that would complement one another and would fully cover the Committee's safety net principles.

The editorial subcommittee chose to concentrate on four potential program designs. These included an enhanced Gross Margin Insurance Program; two variations of a sector program that would offset sustained declines or dramatic impacts on prices and/or production in recognition of the effect of high international subsidies on the grain and oilseeds sector or any other commodity sector; and a market revenue program. The subcommittee chose to recommend the enhanced Gross Margin Insurance Program and the trade equalization payment variation of a sector program to the Committee for advancement.

Further detail on these two programs is contained in the Recommendations Section.

4. RECOMMENDATIONS

THE FSRC makes the following recommendations with respect to the Crop Insurance Program, Net Income Stabilization Account, and the Canadian Farm Income Program.* Following these, the Committee identifies several recommendations for other actions and programs. Two specific program concepts are outlined, and the Committee recommends these to government for further consideration.

Crop Insurance

1. **Crop Insurance should increase the available level of coverage from the current maximum, while maintaining the spot loss hail component.**

This suggestion was made by many of the organizations that submitted to, or appeared before the Committee. The Committee agrees higher crop insurance coverage levels should be made available.

2. **Yield coverage levels should reflect new technology and/or improved management techniques utilized by individual farmers. Such coverage should also apply on any new crops produced by these farmers.**

The Committee feels the impact of new technology or improved management techniques may be better reflected in yield coverage levels through use of an Olympic average or a shorter averaging period than the ten years that is currently employed. This may be achieved by giving producers a one-time option of choosing a five or ten year averaging period for the determination of their individual yield coverage. Crop Insurance should also be directed to examine the historical difference between stubble and summerfallow yields and update the relationship between the two, allowing the use of an updated time period to determine yield coverage.

3. **Enhance the rainfall-based pasture insurance program and extend it to cover hay and green feed crops.**

The Committee was advised that the experience under the rainfall pilot for pastures was favourable to both insurers and to the Crop Insurance administration. This experience, along with the continuing diversification by producers into cattle production in the province provides a strong rationale for these insurance program enhancements.

4. **Explore the potential for the expansion of the rainfall-based insurance pilot to crop coverage.**

The Committee feels that the favourable response to rainfall-based pasture insurance warrants consideration to the application of this approach to crop area. The Committee

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* The recommendations contained in this report have received the support of at least two-thirds of the members present at Committee meetings.

does not view rainfall-based insurance as a replacement to current individual yield-based insurance coverage but as a potential dollar per acre supplement to current insurance.

5. Provide coverage for a greater variety of crops.

Crop Insurance administrators have been responsive to the needs of producers who have diversified into non-traditional crops. The Committee encourages the continuation of this practice.

6. Allow producers with a proven experience history the option to insure basis their individual grade and protein averages (i.e. high protein wheat, malting barley). Individual cost recovery should apply if program delivery costs are substantially higher.

Several presenters explained that Crop Insurance does not cover the full value of some of the crops they produce. This recommendation would help address this concern.

7. Consider provisions to mitigate the yield average-reducing effect due to successive claim years.

The Committee understands that the Manitoba Crop Insurance Corporation utilizes area averages to reduce the impact on individual yield averages that would otherwise occur. This approach, that mitigates the effects resulting from production losses on yield coverage while maintaining the actuarial soundness of the Crop Insurance Program, should be investigated.

8. Improve the variable price option so that prices established under this option are set closer to harvest time, to more accurately reflect the market price.

The Committee notes that the current practice of establishing crop values for insurance purposes well in advance of harvest may lead to situations where the established prices do not reflect market prices. The Committee recommends that Crop Insurance administrators examine mechanisms that will enable the insured crop values to more closely match market returns.

Net Income Stabilization Account

9. Eliminate negative linkages among farm support programs.

The Committee feels that the linkage between NISA and CFIP that leads to a reduction in CFIP payments by the amount governments contribute to NISA is inappropriate and should be removed.

10. Allow minority ownership interests below ten percent in agricultural operations to participate in NISA.*

The Committee notes the ten percent ownership requirement for program participation has excluded a large number of investors in intensive hog operations. It is estimated that half of the hog production in the province is not eligible for coverage under NISA because of this ownership requirement. If this sector is to be a full participant in the program, the minimum ownership requirement needs to be reduced or eliminated.

11. Allow unused matching contributions to be carried forward for a maximum of three years.

Although a large majority of producers make their maximum matchable contribution every year, a percentage is unable to do so. Implementing this recommendation would provide flexibility to those producers who are currently unable to contribute annually, as well as to those who are required to finance their annual contributions. The amounts carried forward should be eligible for the deeming provision, so that producers are not required to contribute when their intention is to immediately withdraw these funds.

12. Explore allowing the rolling forward of unused eligible net sales in excess of the maximum of $250,000 for future use for up to three years.*

The Committee feels this provision would be of use to producers who on average have eligible net sales in excess of the maximum, but who may experience substantial declines in sales in any one year due to production shortfalls or market price declines. Producers that are scaling down their farm operations should not be eligible for this provision.

13. Designate the taxable portion of NISA withdrawals as farm income.

The Committee believes this designation would be consistent with the nature and purpose of the program. Such a change would enable farmers to apply these withdrawals against any farm losses that they may have. In such situations, this would reduce the taxation on such withdrawals, ensuring producers receive a larger portion of the gross funds available at the time when their financial needs are greatest.

14. Allow the inclusion of freight to port and elevation charges on Canadian Wheat Board grains in eligible net sales calculations.

The Committee agrees that the point of sale for Canadian Wheat Board grains occurs at port position and charges to get this grain to that position are appropriately included in the calculation of eligible net sales.

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* The National Farmers' Union representative expressed the position that, to be eligible for NISA, such minority ownership positions should be held by bon a fide farmers. He could not support the adoption of this recommendation in its current form.

* The National Farmers' Union representative indicated he could not support this recommendation because its effect would be to increase the eligible net sales maximum beyond $250,000 for some NISA participants.

15. If the interest bonus is reduced or eliminated, these funds should be used to increase governments' percentage rate contributions on eligible net sales.

The Committee believes government funds that are currently allocated to NISA should continue to be utilized within NISA, and the most appropriate use of such funding would be for governments to increase the rate to which they contribute on eligible net sales.

Canadian Farm Income Program

16. Streamline the administrative processes and reduce costs to increase the amount available as producer payments.

The Committee believes this recommendation reflects concerns that are broadly held among producers and by farm organizations. Significant expenses are incurred when professional accountants are retained to prepare program applications. Despite this the review and administration required by CFIP Administrators is significant. This suggests a duplication of accounting processes and an increased expense to producers and government to access and deliver the program. The Committee feels that where possible, the detail required should be reduced and the processes streamlined, especially when the producers' application has been prepared and submitted by an accounting professional.

17. Allow participation of minority ownership interests below ten percent in agricultural operations in the program.*

The Committee notes that the ten percent ownership requirement may limit the extent to which an intensive livestock operation may benefit from the Canadian Farm Income Program. If such enterprises are to have full access to this safety net program the rules based on minimum ownership levels will need to be changed.

18. Explore ways to improve the reference margin for operators in sectors that experienced a sustained drop in income due to the impact of international subsidies, or add a separate program that compensates producers for this impact.

19. Explore ways to improve the reference margin for operators that experienced multiple year production losses.

The Committee feels that the grain and oilseed sectors' experience with CFIP strongly suggests improvements in the calculation of the reference margin should be considered.

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* The National Farmers' Union representative expressed the position that, to be eligible for CFIP, such minority ownership positions should be held by bon a fide farmers. He could not support the adoption of this recommendation in its current form.

20. Cover negative margins.

The Committee believes that the effectiveness of the program would be enhanced if negative margins were covered.

21. Governments should fully fund CFIP so that program claim payments are not pro-rated; at a minimum, governments should carry forward any unused CFIP funding from the 2000 claim year so that these funds may be available for the 2001 claim year.

The possibility that producers may receive less than the full claim amount they are entitled to under the rules of the program undermines the effectiveness it may have to offset severe income declines.

Any residual funding from the 2000 claim year should be carried over and be available for the 2001 claim year. This action would be viewed as a temporary fix only, as the real solution is adequate funding for each claim year.

Suggestions for Other Actions and Programs

The FSRC received presentations on a wide variety of agricultural policy initiatives, and potential safety net program designs, which could benefit Saskatchewan agriculture. In addition, there were several general recommendations on safety net funding and farm support that are not specific to current programs. The Committee has combined these concerns and wishes to recommend the following:

22. Revision of the federal-provincial safety net funding formula (60:40) so that a smaller portion of the cost is placed on the provinces.

The Committee feels that the current safety net funding formula places a disproportionate burden on those provinces that have an agriculture sector that comprises a significant component of the provincial economy. This burden has been especially severe for Saskatchewan, and should be reduced.

23. Allocation of federal safety net funding should be based on risk faced by farmers across Canada and not based on the size of the industry in each province.

The Committee believes the Fredericton formula, which divides federal safety net funding between the provinces is inequitable. This formula has the effect of increasing safety net funding allocations to those provinces that enjoy increasing agricultural market receipts, and reduces allocations to those provinces which experience market or production reversals. However an allocation based on market and cash receipts may have little relation to the income variability or need that is experienced. The Committee believes that funding should be allocated to provide equivalent levels of support to producers and be tied to the mitigation of common levels of risk.

24. The federal government should fund national programming that provides equivalent levels of support to producers of similar commodities, regardless of the province they live in.

The provision of equivalent levels of support and risk mitigation to producers of like commodities in different areas of the country needs to be equivalent over time as well as over geographic regions. One negative effect of overall funding caps on a program such as crop insurance, which is demand driven and based on market prices, is that substantial changes in provincial program premiums or coverage may occur from year to year. In addition to the impact on equity across areas of the country, such variability impacts the effectiveness of the program as a risk management tool for producers in those provinces.

25. Provide direct federal assistance to offset depressed farm incomes stemming from the subsidy activity of the EU and the US.

Current Canadian safety net programming is inadequate for producers in those sectors that have experienced the negative effect of US and EU subsidies on their farm incomes.

26. Examine alternative safety net programming, including an enhanced gross margin insurance program, and a trade equalization payment program that is designed to account for sustained declines or impacts on prices and/or production.

The Committee considered two program designs, which they believe would improve on the current mix of safety net programs available. The first is an enhanced gross margin program, which would improve CFIP. The second is a sector program, which would generate a trade equalization payment to compensate those sectors that have been disadvantaged by international subsidies. A framework for each of these potential program options is described in the following.

Enhanced Gross Margin Insurance Program

This program is designed to address sharp declines in prices and/or production.

The program would utilize the CFIP design, and cover a base 70 percent of average reference margins on an accrual basis. Producers would have an opportunity to top-up their coverage beyond 70 percent, by paying the full cost of the additional premium.

There would also be a premium based negative margin coverage that could be cost-shared with governments. Premiums would reflect the risk reduction inherent in a diversified agricultural operation.

Pros/Cons:

Pros:

- The program design is green.
- Negative margin coverage would give livestock producers a level of production insurance (which they currently do not have).
- Negative margin insurance effectively covers the cost of production (less premium costs).
- It would allow producers to purchase a higher level of income stabilization than is currently offered.

Cons:

- There is a potential for program abuse if negative margins are covered indefinitely.
- Some of the problems with the CFIP program would also have to be addressed in the design of a gross margin insurance program.
- Administratively complex.
- Does not address sustained price or production declines because premium rates would increase and average gross margins would decline.
- Administration costs increase as coverage levels increase.

Sector Trade Equalization Payment Program

This program is designed to account for sustained declines or impacts on prices and/or production, in recognition of the impact of high international subsidies on various Canadian agricultural sectors.

Trade Equalization payments could be made on the differential of average EU and US Producer Support Estimate levels and Canadian Producer Support Estimate (PSE) levels for various sectors and maintained for a set period of time. Monitoring of the differentials in Canadian and average EU and US PSE's will determine whether the Trade Equalization Payment should be increased or decreased in the future.

Trade Equalization Payment = [EU-US PSE- Canadian PSE] / Canadian PSE * Canadian Support Level

Where:

EU-US PSE = Average EU and US Producer Support Estimate for the sector
Canadian PSE = Average Canadian Producer Support Estimate for the sector
Canadian Support Level = Current dollar amount of sector support

Payments could be based on the individual's historical production, net sales or acreage.

Example:
Producer Payment = Trade Equalization payment * Individual's Net Sales in the Eligible Sector/Total Net Sales in the Eligible Sector

Alternate Program Design Considerations

Alternative A. Program payments to individuals are on a fixed base period:

Pro:
- The program could be notified as green.

Con:
- New entrants to the sector would be excluded from the payments.

Alternative B. Program payments to individuals are on a floating base period:

Pro:
- New entrants could gain access to program payments.

Con:
- Higher potential for countervail action unless all sectors are eligible for payments on a whole farm basis.

Overall Pros/Cons
Pro:
- Not very complex to administer.

Con:
- Does not offer much coverage for production difficulties.

APPENDIX A

Proposals Which Were Not Accepted By the Committee

The following proposals on Crop Insurance, NISA and CFIP did not receive sufficient support of Committee members to go forward as recommendations of the FSRC:

Crop Insurance

> **Broaden the availability of spot loss insurance beyond hail to other weather risks. Provide insurance on a field/quarter section basis.**

The Committee discussed potential administrative difficulties and additional costs an expansion of spot loss insurance could entail, as well as the possibility for program abuse if insurance coverage was provided on a field or quarter section basis. Several Committee members noted technological advances in recent years, including satellite imagery and its ability to measure crop density, along with accurate global positioning which could enable field specific monitoring and measurement. However, the majority of the Committee did not feel the increased specificity of insurance coverage would be of overall net benefit to producers after increased premium and administrative costs are taken into account.

> **Provide revenue coverage; provide coverage that covers input costs/cost of production.**

The Committee believed any recommendations for revenue insurance or insurance coverage of some or all costs of production should be part of a separate or new program design so that crop insurance remains a production insurance program.

> **Reflect lower risks such as an unconsolidated land base, or best management practices in premium discounts.**

The Committee concluded that any lower risks stemming from an unconsolidated land base or utilization of best management practices would be reflected if producers could opt to have a shorter averaging period apply to their individual yield calculation.

> **Base fixed price options on the past five-year Olympic average market price.**

Committee members felt that fixed price options should be based on expected market returns, as is currently the case. Use of an average market price could inappropriately influence producers' production decisions in times when crop prices are substantially higher or lower than the average.

Institute a transparent mechanism for the establishment of crop prices, for insurance purposes, and allow farmer representation in this process.

The Committee noted that crop prices for insurance purposes are based on forecasts made by Agriculture and Agri-Food Canada. This information is publicly available.

Do not deduct salvage values at or below a set value from indemnities to be paid.

It was the opinion of the Committee that salvage values should continue to be deducted.

Expeditious write-offs of drought-damaged crops to salvage value, less harvest costs, to preserve feed value, should be possible.

The Committee recognizes measures will need to be taken to ensure sufficient feed supplies if the drought experienced during 2001 continues in 2002. However, under the provisions of the Crop Insurance Program, expedited appraisals of drought-damaged crops are currently possible.

NISA:

Leave the bonus interest provision unchanged.

The Committee did not support this position because they believe a more equitable distribution of the funds, which are currently expended on the bonus interest provision, should be explored for participants within the program.

Allow genuine first time entrants a higher matching contribution rate to enable the establishment of a meaningful account level in a shorter timeframe.

Committee members expressed concerns about potential program abuse, and whether such action would be an effective way of assisting new entrants to the industry.

Base producer contributions on gross sales values.

The Committee observed that the program had been designed based on eligible net sales to avoid transactions designed to inflate gross sales levels. Members agreed this concern remains valid.

Raise matching contribution percentage on eligible net sales.

The Committee questioned whether such a change would be the most effective use of public funding within the current limitations of the safety net envelope.

Increase the total contribution ceiling/threshold.

The Committee agreed the current ENS contribution ceiling and maximum contribution threshold is generally adequate for the range of farm sizes and production types present in Saskatchewan.

Enable producers to make matchable NISA contributions that reflect their expected gross receipts, rather than their actual, in times when commodity prices and/or yields are low.

Committee members concluded that this proposal would be unworkable.

Enable earlier re-entry into NISA after withdrawal.

The Committee feels the program provisions which allow reentry into the program after two contribution years have passed, or after the full repayment of funds removed from the account are appropriate to prevent program abuse.

Allow withdrawals at the discretion of the farmer.

The Committee believes such a provision would undermine the effectiveness and the integrity of the program as well as being contrary to WTO rules. Another possible outcome is that the funds held in NISA accounts could become accessible to creditors of account holders.

Allow account balances to go into deficit.

The Committee felt such a change to the program would not be possible due to concerns of program abuse and for the sustainability of the program.

CFIP:

Increase the coverage level to 80 percent.

The Committee could not support this proposal in part because of countervail implications associated with going beyond the 70 percent coverage level. As well, some Committee members expressed concern that a higher coverage level would be ineffective in helping grain and oilseed producers because the problem facing this sector is one of lower returns for several years that have depressed the reference margin.

Include a current cost of production component or index the reference margin to inflation.

The Committee felt that a cost of production or inflation component would distort the gross margin approach of the program. Such an approach may be more appropriate in an alternative program design.

End the program and devote government funds to an enhanced NISA.

The Committee could not support this proposal. Although numerous issues have been raised in regard to the current program, Committee members noted that the program has had a positive impact on the hog sector and should be beneficial to other sectors that experience a sharp and short-lived decline in positive gross margins.

Enable the calculation of a deemed reference margin by CFIP administrators for producers who have been affected by successive years of poor crops and resulting low income.

The Committee felt that the implementation of this proposal would lead to a subjective determination of the reference margin, which would have trade implications. However, Committee members acknowledged that the rationale for this proposal is the current inability of CFIP to deal with the weaknesses the current program has in meeting the needs of the grains and oilseed sector, which has experienced a sustained and prolonged decline in income due to international subsidies and drought.

APPENDIX B

Proposals Outside the Safety Net and Disaster Assistance Programming Framework

In addition to numerous proposals on current safety net programs and alternate safety net program approaches, the FSRC received numerous suggestions on broader agricultural policy initiatives that could be taken to assist farmers. The Committee wishes to acknowledge and identify these possible policy initiatives. These may warrant further study and consideration by both federal and provincial governments.

Adaptation

Facilitate and reward those farmers who are making adjustments; provide them with financial encouragement to try something new.

Administration

Allow First Nations to directly administer programs and the delivery of funds to First Nation farmers and ranchers.

Environmental

Direct federal government funding for environmental programs to protect air, water and soil quality. Funding to be separate from the safety net envelope.

Fund agronomic and variety R & D with the objective of furthering soil conservation.

Enhance funding for farm support programs by ensuring the receipt of environmental benefits or compensation resulting from carbon sequestration.

Infrastructure

Provide increased funding for infrastructure programs, such as water development projects, via the enhancement of existing programs.

Infrastructure and value-added

Consider transferring funding from current programs to a central fund. This could go to:

- Business involved in adding value to primary products (25 percent); this could include reduced interest rates, support for equipment purchases, market research, product development and marketing incentives.
- Water Resource Development (8.33 percent).
- Conversion of cultivated acreage to forage production (8.33 percent).
- Construction of fencing/handling facilities for livestock (8.33 percent).
- Per acreage payments to all proprietors of agricultural lands including renters, lessees or owners (50 percent). Money could also be used to pay into a revised NISA, Crop Insurance, and other related/existing programs.

Program funding

Reflect the benefits realized by consumers, society, governments and producers in the cost-sharing of new programs.

Set aside[*]
Seek international co-operation for a set aside.

Examine the benefit of implementing a set aside, applicable up to 20 percent of a producer's total cultivated acreage, and combine this with diversification funding which is tied to actual diversification or value-added development for a four year period following the original set aside year.

Tax credits

Offer tax incentives on NISA withdrawals for diversification or value-added agriculture.

Establish a venture capital fund and tax credit system.

Reduce the education tax burden on agricultural land.

Establish a grocery store surcharge (tax) on food. This money would be channeled back to farmers through an existing agency such as the GST administration or the CWB.

Transportation
Provide a refund of freight costs for grain.

Regulate natural monopolies if unable to achieve real competition.

[*] The representatives for the Saskatchewan Cattle Feeders Association and the Western Canadian Wheat Growers indicated their organizations' opposition to any set aside program, as well as their opposition to any tax on food.

APPENDIX C

The FSRC has received presentations or submissions from twelve organizations and correspondence and submissions from twenty-three individuals, two rural municipalities, (the R.M. of Gull Lake #139 and the R.M of Laird #404) the Department of Agricultural Economics, University of Saskatchewan and the Northwest and Northeast Regional Councils of ADD Boards.

The twelve organizations that provided input were the:

- Agricultural Producers Association of Saskatchewan;
- Canadian and Saskatchewan Bison Association;
- Canadian Federation of Independent Business;
- Family Farm Foundation;
- Pro West Rally Group;
- Saskatchewan Association of Rural Municipalities;
- Saskatchewan Federation of Indian Nations;
- Saskatchewan Pork;
- Saskatchewan Pulse Growers;
- Saskatchewan Soil Conservation Association;
- Saskatchewan Stock Growers Association; and
- Saskatchewan Wheat Pool.

Individuals who provided correspondence or made submissions included:

Roy G. Bailey
Sever Belle
Garth Bennefeld
Alfred Fendelet
Jack Gerger
David Harrison
Chris Jones
William Kossan
Maurice Lafreniere
Garry Lawrence
Francois Messier
Howard and Karen Peterman
Russ Popoff
Melanie Saworski
Corey Senft
Lyle Stewart
Dwayne Tumbach
Don and V.E. Wells
Bob Willick
Robert and Sandra Yonge
Mark Zosel